

JUSTIFICATION SHEET

FINAL

DEPARTMENT: Labor and Industrial Relations

TITLE: A BILL FOR AN ACT RELATING TO THE EMPLOYMENT SECURITY LAW.

PURPOSE: Section 3304(a)(15) of the Federal Unemployment Tax Act (FUTA), sets requirements for the reduction of the amount of unemployment benefits paid to an individual who is receiving a pension or other type of retirement income. The purpose of this bill is to simplify the method of the pension deduction.

MEANS: Amend section 383-23.5, Hawaii Revised Statutes.

JUSTIFICATION: The pension offset law, P.L. 94-566, was originally enacted in 1976 and required a dollar-for-dollar deduction from unemployment insurance benefits for any and all retirement income. In 1980, P.L. 96-364 amended the law to change the 100% deduction to allow states to consider contributions to the retirement plan made by the claimant or the base period employer. The employment in the "base period" is used to establish the claimant's unemployment claim.

Under Hawaii's current law, pension or retirement income is deducted 100%, 50%, or 0% from the unemployment insurance weekly benefit amount depending on the amount of contributions made by the claimant to the pension or retirement plan maintained by the base period employer as follows:

1. 0% or no deduction is taken from the unemployment weekly benefit amount if the claimant contributed all or 100% to the retirement plan; or
2. 50% or half of the prorated weekly pension amount is deducted if the claimant contributed 50% to 99% to the retirement plan; or
3. 100% or all of the prorated weekly

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pension amount is deducted if the claimant contributed less than 50% to the retirement plan.

The intent of this proposal is to modify and simplify the method of deduction to all or nothing - 100% deduction if the employer made all of the contributions to the retirement plan or 0% deduction if the claimant made any contributions to the retirement plan, regardless of the percentage. Since the claimant makes contributions to Social Security, deductions taken for Social Security benefits would stop under this proposal.

This amendment would result in less confusion regarding the application of the federal and state laws. As more and more seniors enter the labor force, there is a need to lift the burden that forces them to spend their retirement savings when they lose their jobs.

Impact on the public: Pensioners currently account for approximately 3 to 4% of all UI claimants. These older individuals would be able to increase their consumption levels by collecting more of their UI income if pension were not deducted and make a bigger contribution to the local economy.

Impact on the department and other agencies: None.

GENERAL FUND: None.

OTHER FUNDS: Federal.

PPBS PROGRAM
DESIGNATION: LBR 171.

OTHER AFFECTED
AGENCIES: None.

EFFECTIVE DATE: Upon approval (new claims filed with an effective date beginning on or after January 1, 2006.)